

NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

A. Major Constitutional and Statutory Provisions

Balanced Budget Requirements

Article 5 of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the executive budget and budget bills for each fiscal year.

Article 4 of the State Constitution mandates the Legislature to enact appropriations for each operating fund that does not exceed that fund's revenue estimates, including beginning unreserved fund balance.

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

Local Spending Requirements

Article 9, Section 30 of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1992-1993, is 48.97%.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2000-2001 are not yet complete. For fiscal year 1999-2000, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 61.68%, reflecting payments that exceeded the minimum required by \$3.0 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2000-2001.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1978-1979, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's single business tax. If the limit is exceeded by an amount less than 1%, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2000-2001 are not final. For fiscal year 1999-2000, the most recent year for which final calculations are available, total State revenues subject to this limitation exceeded the constitutional limit by \$159.7 million.

The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2000-2001.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature.

The following table summarizes the transactions for the fund for fiscal year 2000-2001 (in millions):

Beginning unreserved fund balance	\$ 1,264.4
Interest income	66.7
Transfers to General Fund	(270.0)
Transfers to School Aid Fund	(32.0)
Transfers to State Trunkline Fund	(35.0)
Ending unreserved fund balance	<u>\$ 994.2</u>

Transfers to the General Fund represent the transfer of \$77.0 million pursuant to P.A. 112 of 2001, Section 353 (10), and the transfer of \$193.0 million, pursuant to P.A. 161 of 2001, Section 353 (11). These transfers were made to ensure a balanced

General Fund budget. The transfer to the School Aid Fund is for the purpose of making appropriations to school districts and intermediate school districts as required by P.A. 431 of 1984, as amended. The transfer to the State Trunkline Fund is for the purpose of funding a portion of the Build Michigan III program, pursuant to P.A. 189 of 2000, Section 358.

B. Budgetary Overexpenditures

In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation for the amount overspent, if that amount exceeds their lapses or if they expect to make payments from prior year authorization in the next fiscal year. There were no net overexpenditures by General Fund departments. There were, however, the following line-item overexpenditures of State funds incurred during the year, which represent non-compliance with State budget laws (in millions):

General Fund:	
Community Health	\$ 31.3
Career Development	.6
General Fund Total	<u>\$ 31.9</u>